9/2/80 B-4490-602.1

The Changing Board 1979 Update

A Profile of the Board of Directors

Outsiders Gain Strength As Board Influence Grows

Outside directors are growing in numbers, their impact on corporations is more substantial, and they are being compensated more highly for their enlarged responsibilities.

- Outside directors now constitute an average of 63.03 percent of board membership, up from 59.83 percent a year ago.
- With the single exception of the executive committee, outside directors hold the majority of board committee chairmanships.
- The nominating committee has assumed a greater role in approving board prospects.
- Executive search firms and other management consultants have gained favor as a source of new directors while more traditional forms of assistance have declined in popularity.
- Compensation of outside directors continues to climb.
- Eight out of ten board chairmen believe boards will exert more influence on corporate governance in the future than is true today.

Heidrick and Struggles, Inc.
Management Consulting–Executive Search

According to Eugene E. Jennings, professor of management in the graduate school of business administration at Michigan State University, an advisor to corporate presidents, and an authority on management trends, "We are witnessing a revolution without a revolt! As corporate America nears the end of the Seventies, radical shifts are occurring in the powers of management and the board of directors.

"Before the start of the decade, Andrew Carnegie's dictum, 'If I'm going to have a board, it is going to be my board,' prevailed. Most corporate boards had more insiders than outsiders, and both were handpicked by management. The outsiders had much to gain from a profitable enterprise, being largely bankers, lawyers, and businessmen from firms which served the needs and interests of the corporation. Because of their stake in the enterprise, the directors were expected to and for the most part did encourage management to make wise business decisions. They were expected to represent the success, status, and pride of the corporation to the 'public' which was viewed as principally the investment community. Few committees existed; if there was one, it was probably the all-powerful executive committee which was chaired by an insider.

"In the 1980s, large publicly held corporations will become more publicly ruled than was even contemplated one decade ago. Increasingly, there are nominating committees chaired by outsiders who initiate the process of determining nominees to the board; and fewer and fewer outsiders represent firms which serve the needs of the corporation.

"Today the board is expected to represent the interests of the public at large to the corporation more than vice versa. Outsiders have acquired and will continue to acquire influence with which to rule corporate America. It will remain for the Eighties to show whether boards dominated by independent directors with little stake in the enterprise can use their new-found power wisely."

About this study

In June, 1979, Heidrick and Struggles conducted this fifth survey of boards of directors of the nation's most prominent corporations. With rapid changes occurring in board practices and policies, the firm examined a number of areas previously studied as well as focusing on new considerations. This update, the second since a more comprehensive review of the subject matter in 1976, included the 1,000 largest industrial companies and the 300 leading non-industrial organizations, including commercial banking, diversified financial, insurance, retailing, transportation, and utility companies. A response of 45 percent was attained.

Heidrick and Struggles is grateful to the board chairmen who took time from their important responsibilities to make these results possible.

Proportion of Outsiders Grows

Six out of ten boards have remained the same size over the past 12 months; about one in five reports an increase, and a like number, a decrease. The average board size remains 12.

However, the proportion of outsiders has climbed after remaining at roughly 59 percent since 1971. Currently, outside directors constitute 63.03 percent of the typical board.

- Three out of four companies report a majority of outside directors on the board, compared with 68.7 percent in 1976 and 64.4 percent in 1971.
- The number of organizations with no more than 25 percent outsiders continues to drop.
- At the same time the number of companies with 76-100 percent outsiders has reversed a long-term decline and now represents a quarter of all organizations surveyed.

Inside/Outside Director Representation
Outsiders as Percent of Board

	All Companies			
Percent	**1971**	**1976**	**1978**	**1979**
0-25%	7.1%	5.0%	3.8%	2.9%
26-50%	28.5	26.3	26.1	21.4
51-75%	33.6	47.9	53.7	49.7
76-100%	30.8	20.8	16.4	26.0
Average	59.56%	59.62%	59.83%	63.03%

Outside Directors Head Committees

Committees continue to proliferate, although executive committees are no more widespread now than in 1976. The sharpest increase has been posted by the nominating committee, which is found among nearly half of major organizations today, up from fewer than 10 percent just three years ago.

- Audit remains the most prevalent board committee, now being found in nearly 98 percent of all companies surveyed. Compensation, executive, and nominating committees follow in frequency.
- Audit, compensation, retirement (pension), and social responsibility have posted gains along with the nominating committee. Executive and finance have remained unchanged while stock option committees as a separate entity have declined in prevalence.
- Outside directors chair nearly 98 percent of the audit committees, 90 percent of compensation, 84 percent of stock option, 80 percent of nominating, 75 percent of social responsibility, and 63 percent of pension/retirement committees.

© Copyright 1979, Heidrick and Struggles, Inc. Reproduction in whole or in part permitted, provided source is given.

- Slightly more than half of the finance committees are headed by outsiders.
- However, only 14 percent of executive committees are chaired by outside directors, with 58 percent being headed by board chairmen.

Approving Board Prospects

In 1976 the chief executive officer far outnumbered other sources as the initial decision-maker in approving director candidates. Then, second rank was held by incumbent directors as a group, followed by the board's executive committee. The nominating committee acted in only 8.2 percent of the companies.

Now almost 38 percent of the organizations report that the nominating committee is the initial decision-maker, undoubtedly working in concert with the chief executive. The CEO acting alone has dropped to second place, with 33 percent of the mentions. All incumbent directors act as the decision body in 17 percent of the companies today, while the executive committee assumes this responsibility in only 11.3 percent of the organizations.

Sources of Candidates

The only source of assistance in identifying new directors to gain favor over the past three years has been executive search firms and other management consultants. However, even today consultants are employed by just 13 percent of the organizations studied, which use a variety of means to locate candidates.

Present directors remain the most popular resource, specified by 94.5 percent of the companies, while non-director corporate officers are relied upon by 44 percent of the participating organizations.

Investment bankers, commercial bankers, and attorneys are far less frequently utilized as resources now than in 1976.

Directors' Compensation Advances

One discernible result of the board's greater contribution to corporate governance is substantially higher compensation.

Now nearly 12 percent of board members receive at least $18,000 for attending regularly scheduled board meetings, compared with about 6 percent three years ago. Indeed, 1.2 percent receive $21-23,999, and 1 percent are paid $24,000 or more.

Compensation of Outside Directors for Board Meetings

	All Companies			1979 Industrials				Non-Industrials
	1976	1978	1979	$2 billion and more	$1-1.9 billion	$500-999MM	Under $500MM	
Under $3,000	10.1%	5.4%	2.1%	—	—	—	4.6%	1.1%
$3-5,999	25.8	9.8	7.8	—	1.9%	—	14.3	7.1
$6-8,999	28.6	25.9	24.4	3.4%	3.8	17.7%	37.5	23.9
$9-11,999	17.5	20.5	22.5	5.2	21.2	35.3	24.1	21.7
$12-14,999	11.6	17.8	18.9	12.1	32.7	25.0	12.0	22.8
$15-17,999	6.4	12.9	12.6	29.3	21.2	13.2	5.6	13.0
$18,000 and more		7.8	11.7	50.0	19.2	8.8	1.9	10.4
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Eighty-five percent of the organizations offer additional compensation for committee membership and/or chairmanship. Twenty-two percent offer no extra remuneration for chairmen, while just 2.5 percent report no additional sum for committee members.

Additional Compensation for Committees

Retainer	Chairmen	Members
$1,000 or less	2.7%	0.8%
$1,001-3,000	4.5	1.3
$3,001-5,000	2.3	1.7
More than $5,000	3.6	1.7
Per Meeting		
$250 or less	10.4	15.9
$251-500	33.0	60.2
$501-750	6.4	7.1
More than $750	3.6	2.1
Other arrangement	11.3	6.7
No extra compensation	22.2	2.5
	100.0%	100.0%

Board Composition

Not only are time demands greater for today's directors, but the threat of suits looms larger. The pool of qualified and interested prospects is shrinking, even as government sources and corporate critics decry direct and indirect interlocks.

One consequence of these conditions is a greater interest by organizations in "professional" directors, retired executives, and directors from outside the United States. Now 18 percent of the companies studied profess an interest in professionals, or those whose primary activity is serving as an outside director of companies, up from 13.5 percent three years ago. The number expressing interest in retirees has climbed to 56 percent from 44 percent, while those considering foreign executives has advanced to 30 percent from 22 percent.

However, nearly three-quarters of the organizations report no members of a racial or ethnic minority as board members, and 68 percent of the companies have no women directors.

Chairmen View the Board

The majority of board chairmen either agree strongly or mildly with the suggestion that legal counsel, commercial bankers, and investment bankers should not serve on their client companies' boards. However, 65 percent disagree with the proposal that boards avoid a direct interlock of directors, and 71 percent disagree with the sentiment against indirect interlocks.

Certainly, board chairmen believe that boards will exert more influence on companies in the future. This feeling is even more prevalent among industrials than non-industrials and on both coasts than in the Midwest or South/Southwest.

However, overall only one chairman felt that board impact would decline; and only about one in five believed that director influence would remain the same.

About Heidrick and Struggles

As one of the largest and most experienced management consulting firms specializing in executive and director search, Heidrick and Struggles has worked at the upper and middle echelons of management in all functions in behalf of organizations within every one of the world's major industries.

The company's senior members are increasingly called upon for counsel and professional assistance in the critical task of identification and selection of able corporate directors. The search for outside directors capable of stimulating management thinking and aiding the chief executive in decision-making now demands analyzing board requirements, developing a strategy of research, establishing several candidates and contacting prospects personally where possible to evaluate their suitability. The final decision rests with the client organization, but the use of search consultants can help the client preserve anonymity until a decision is made.

Heidrick and Struggles is pleased to add this current study to those periodically published by the firm to make known trends of significance to senior management. A related report, DIRECTOR DATA, surveys outside directors newly elected to the country's leading boards each year and provides information on the characteristics of outside directors themselves.

Heidrick and Struggles, Inc.

Management Consulting—Executive Search

Boston	**Los Angeles**	**London**
Chicago	**New York**	**Mexico City**
Cleveland	**San Francisco**	**Paris**
Dallas	**Brussels**	**Utrecht**
Houston	**Frankfurt**	**Zurich**